

Granite Falls ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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ABC
COMMISSION
NORTH CAROLINA

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OBJECTIVE, PURPOSE, AND SCOPE

G.S. 18B-705 (a) authorizes the ABC Commission or alcohol law enforcement agents to conduct regular, special audits, or performance evaluations on all ABC boards. Performance audits are examinations of existing operating policies, practices, controls, and activities to determine those areas in which there may be a need for improvement.

The audits or evaluations are to ensure that all local ABC Boards comply with established performance standards pursuant to G.S. 18B-203 (a) (20). The audit scope includes performance standards that address compliance with ABC laws, store appearances, operating efficiency, solvency, and customer service.

To achieve the objectives of the audit, auditors:

- Reviewed applicable General Statutes, ABC Commission Rules, and administrative policies
- Reviewed applicable reports and studies of ABC boards with similar size and geography
- Consulted with specialists at UNC School of Government
- Verified compliance with Commission and Board policies
- Reviewed organizational chart and job descriptions
- Reviewed ABC board annual independent financial audits
- Visited the store(s)
- Interviewed key ABC board personnel.

As a basis for evaluating internal control, auditors applied the internal control guidance contained in professional auditing standards. Internal control is the process by which the board and management provide reasonable assurance that operations are effective and efficient, reliable, and in compliance with applicable rules, laws and regulations. As discussed in the standards, internal control consists of five interrelated components, which are (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

BACKGROUND INFORMATION

S.L. 1963-546 authorized the City of Granite Falls to hold an election upon a petition signed by at least fifteen percent (15%) of registered voters. The referendum was held on November 16, 1963 and passed 490 to 474. The first retail sale occurred on March 9, 1964. A subsequent mixed beverage election was held on December 7, 2004 and passed 661 to 432.

S.L. 1963-546 authorized the City of Granite Falls to create an ABC board consisting of a chairman and two members to serve for three-year staggered terms. Current board members are David Annas, chairman, Paul Shumaker, Jr. and Steve Kirby.

The Granite Falls ABC Board employs two full-time and four part-time employees. The general manager is responsible for providing sufficient oversight of all daily operations including policy implementation and human resource management. The board has hired from within the organization the position of the finance officer. All store employees have a primary responsibility of providing friendly customer service, store upkeep, and regular stock maintenance.

FINANCIAL ANALYSIS

PROFIT PERCENTAGE TO SALES

The profit percentage to sales is calculated by dividing the total income (loss) from operations by the total liquor sales (Total Income (Loss) from Operations/Total Liquor Sales). The Commission has set goals based on the following breakdown:

- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M and \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In FY2015, the Granite Falls ABC Board had gross sales of \$1,010,816; income from operations was \$66,104, a 6.53% profit percentage to sales. Sales revenue increased 6.29% over FY2014.

DISTRIBUTIONS

G.S. 18B-805 (b) requires the board to pay from gross receipts, all expenses, mixed beverage and bottle taxes. G.S. 18B-805 (c) requires the board to make a minimum quarterly distribution of the 3½% markup and .01/.05 cent bottle tax to the county.

In FY2015, the Granite Falls ABC Board made the required minimum distribution of \$27,007 to the town. The Granite Falls ABC Board paid a total of \$231,672 in excise and other taxes to the NC Department of Revenue, the Department of Health and Human Services, and the town.

G.S. 18B-805 (c) (2) requires a local board to distribute quarterly at least five percent (5%) of profits to law enforcement and at least seven percent (7%) toward alcohol education.

The Granite Falls ABC Board has a contract with the Granite Falls Police Department to distribute ten percent (10%) of profits. Distributions paid toward law enforcement totaled \$4,278. The ABC Board distributed \$3,850 for alcohol education purposes.

S.L. 1993-728 requires the Granite Falls ABC Board to distribute quarterly the remaining profits as follows:

- Thirty percent (30%) to the Granite Falls school district
- Sixty percent (60%) to the Granite Falls General Fund
- Ten percent (10%) to the Granite Falls Recreation Commission.

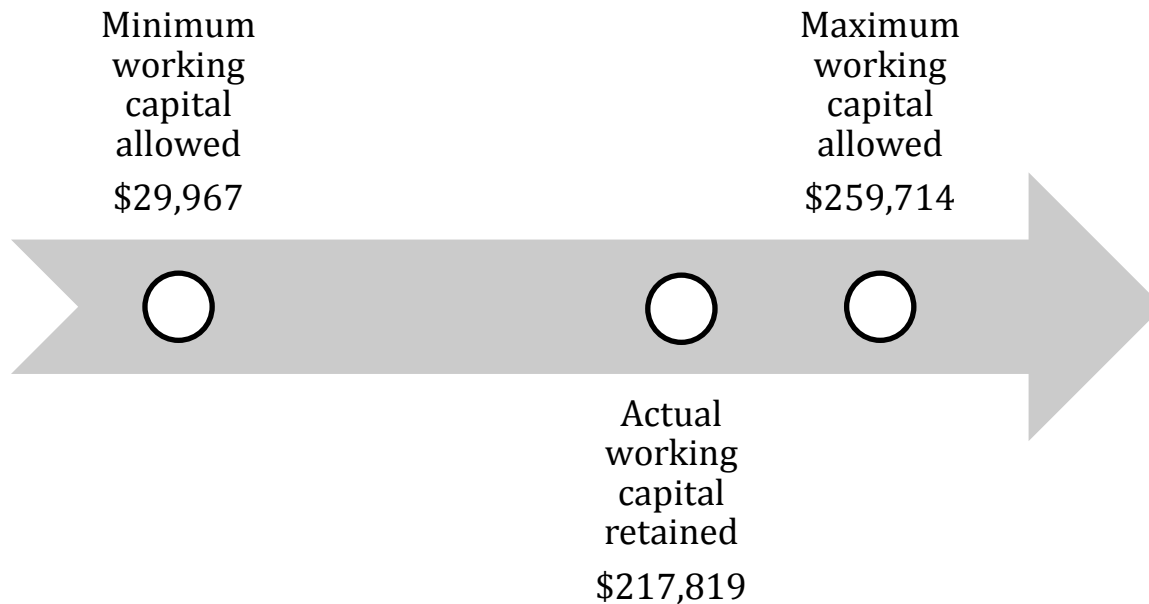
In FY2015, the Granite Falls ABC Board made an additional distribution of \$33,489 to the appropriate units.

WORKING CAPITAL

G.S. 18B-805 (d) allows the board to set aside a portion of the remaining gross receipts, within the limits set by the rules of the Commission, as cash to operate the ABC system. Working capital is total cash, investments, and inventory less all unsecured liabilities. Gross sales means gross receipts from the sale of alcoholic beverages less distributions as defined in G.S. 18B-805 (b), (2), (3), and (4). The Commission has set working capital and efficiency goals based on the following breakdown:

- *Four months for boards with gross sales less than \$1.5M*
- *Three months for boards with gross sales less than \$50M and greater than or equal to \$1.5M*
- *Two months for boards with gross sales equal to or greater than \$50M*

The Granite Falls ABC Board had gross sales of \$1,010,816 in FY2015. The board's actual working capital of \$217,819 is within the recommended range set by the rules of the Commission.



OPERATING COST RATIO

The operating costs ratio was calculated by dividing total operating expenses less depreciation by the gross profit on sales (Total Operating Expenses less Depreciation/Gross Profit). Below are the average cost ratios for boards with and without mixed beverage sales (MXB):

- Boards with 3 or more stores – cost ratio 0.63 or less
- Board with 1 or 2 stores with MXB – cost ratio .73 or less
- Boards with 1 or 2 stores without MXB – cost ratio .85 or less

The Granite Falls ABC Board operates one retail store with mixed beverage sales. Mixed beverage sales make up 3.8% of total gross sales. In FY2015, the Granite Falls ABC Board's operating cost ratio is 0.70. Sales have increased 6.29% over fiscal year 2014. Expenses increased 6.33% over the same time period.

FINDINGS AND RECOMMENDATIONS

STORE APPEARANCE AND OPERATIONS

As a routine procedure, the ABC Auditor tours ABC store locations, evaluates interior and exterior store appearances, verifies product pricing, and interviews store personnel. The Granite Falls ABC Board operates one retail store with an approximate average of 1,100 linear feet of shelf space and carries an approximate of 1,000 product codes.

- Along the exterior, landscaping is well-maintained and trash-free.
- Inside the store appeared well-lit and clean contributing to a comfortable shopping experience.
- The store's signage is neat and visible. The Fetal Alcohol Syndrome poster is displayed and visible to the public.
- Shelf management and/or product placement follows industry standards and ABC Commission rules that show the following:
 - Each product is displayed within its designated category
 - Premium products show at eye level and lowest-price products on the bottom shelves
 - Sizes are consistent going from largest on the right to smallest to the left
 - Cross merchandising is utilized where possible to encourage impulse shopping
 - Bottles are fronted and dusted throughout the store.
- The state price book is available for retail and mixed beverage customers. Sales clerks often refer to the price book for verification of products and pricing. Monthly sales information is shared with mixed beverage and retail customers on a consistent basis.
- Cash drawers are maintained by all clerks. All clerks are responsible for their own cash drawer. Management has implemented procedures for handling cash drawer overages/shortages.
- Bank deposits are made regularly according to the ABC Commission rules. Bank notifications are received and matched with corresponding daily register reports. Bank reconciliations are completed by the general manager.
- The store counts store inventory on a monthly basis. Spot checks are conducted more frequently. If discrepancies are found, the general manager and the assistant manager will investigate and recount. Adjustments to the inventory system are made by the general manager. Unsalable merchandise/shrinkage is adjusted monthly.

NO RECOMMENDATIONS

PERSONNEL AND ABC TRAINING

- All board members, the general manager, and the finance officer have completed the initial ethics training as required. At the time of the audit fieldwork, one board member has since been reappointed and had not completed the ethics training. Each board member is required by statute to complete the training within one year of reappointment status. Since the audit fieldwork, the board member has completed the required training.
- Cross training has been extended on some key administrative duties to employees in the event the general manager or finance officer are unavailable.
- Additional training is provided to new and existing staff on key areas such as product knowledge, customer service, and clerk responsibilities. The general manager and other staff often attend various training courses offered by the NC ABC Commission, such as the Responsible Alcohol Sellers Program, and the NC Association of ABC Boards.
- Personnel files are available and include the required human resource documentation and other information as needed for payroll.

NO RECOMMENDATIONS

ABC BOARD POLICIES

The Granite Falls ABC Board's policies have been updated to include, but are not limited to, the following:

- Code of Ethics
- Law Enforcement Contract (Granite Falls Police Department)
- Granite Falls Employee Handbook/Manual and Addendums that include the following:
 - Granite Falls ABC Board Sale to Underage Policy
 - Granite Falls ABC Board Price Discrepancy Policy

Policies are required to be submitted to the ABC Commission within fifteen days prior to adoption as required by the ABC Commission rule, NCAC 15A .1102.

G.S. 18B-702 requires the board to adopt a budget and budget message and an annual independent audit for the fiscal year. The Granite Falls ABC Board has submitted the following as required:

- FY2015 Annual Audit
- FY2016 Budget (Proposed and Adopted)
- FY2017 Budget (Proposed)

Policies not adopted include:

- Mixed Beverage Policy
- Travel Policy

RECOMMENDATIONS

1. Adopt a mixed-beverage policy that follows current practices while contributing to customer friendly services.
2. Adopt a travel policy that conforms to the appointing authority's travel policy or the State's travel policy. *Refer to Appendix A (1) for statute.*

INTERNAL CONTROL AND ADMINISTRATIVE OPERATIONS

- The general manager schedules and notifies employees for work shift hours. Each employee completes a time sheet to document hours worked. Time sheets are verified by the general manager and entered into the payroll system for processing.
- In reviewing a sample of travel reimbursements, procedures were conducive to the travel policy on record. The travel policy does not follow either the appointing authority or the State's travel policy.
- Breakage forms have not been submitted to the Commission as required by the rule. However, during audit fieldwork, breakage forms were collected. In reviewing the forms, reasons as to why products were unsalable were not indicated.
- Vendors often invoice the board when office and store supplies are needed. However, vendor invoices, nor liquor orders, do not have a pre-audit certificate signed by the finance officer or deputy finance officer, indicating they are/have been pre-audited for payment as required in G.S 18B-702 (m).
- Checks bear the approved certificate as required by G.S. 18B-702 (q) indicating that the items have been approved by the finance officer for payment. The auditor was unable to verify two signatures on the checks. In reviewing a sample check, there is indication that two signatures are allowed on the checks.
- The board pays all liquor distillery bills by an Automated BillPay system with the bank. All documentation is verified by the general manager and signed by the finance officer.
- Out of approximately 1,000 product codes, approximately 100 product codes were sampled and all were correct.

RECOMMENDATIONS

1. Adopt a travel policy that reflects either the appointing authority's travel policy or the State's travel policy.
2. Submit breakage forms quarterly as required by the Commission rule. Include the reasons why products are unsalable. *Refer to Appendix A (2) for rule.*
3. Place the pre-audit certificate with the finance officer's signature on the orders to LB&B. When ordering supplies, include the certificate on the invoice, purchase order, or order confirmation before the transaction takes place. *Refer to Appendix A (3) for statute.*

ABC BOARD COMPLIANCE

- Board meeting minutes were reviewed and found to provide sufficient detail that a reasonable person would be able to follow what transpired. However, the board did not follow the appropriate procedures when going into closed session.
- Board meeting minutes include a conflict of interest statement asking board members if conflicts exist with the items on the meeting agenda.
- The board notifies the public of board meetings through the local newspaper.
- Board member appointment dates and compensation amounts are current on the Commission website.
- Board member and general manager compensation are in compliance with G.S. 18B-800 (g) and (g1).
- Law enforcement activity reports have been submitted to the Commission as required by G.S. 18B-501 (f1).
- The board is in compliance with G.S. 18B-700 (k). There are no employees who are related to board members or the general manager.
- All board members, the general manager, and the finance officer are bonded for \$100,000. This amount exceeds the requirement in G.S. 18B-700 (i).

RECOMMENDATIONS

1. As specified in G.S. 143-318, the board must follow and enter into closed session proceedings through motion and vote. The purpose must be specifically stated within the motion and only that topic may be discussed in the closed session. All actions discussed in closed session must be stated and/or voted on in open session and included in open session minutes.
2. The board must approve closed session meeting minutes. The required procedure is to hold a new closed session meeting specifically to approve the minutes of an earlier session.

SUMMARY

A board meeting was held on July 15, 2016 with the Granite Falls ABC Board. Discussions were held regarding possibilities of elections within the surrounding areas and highway construction around the store. The board continues to discuss ways to improve profitability while maintaining budget appropriations and acquiring cost savings. Policies have been adopted by the board and management that reflect current practices. Procedures are implemented to ensure compliance with statutes and ABC Commission rules and to ensure efficient operations are conducted while maintaining sufficient controls.



Alcoholic Beverage Control

January 16, 2017

CHAIRMAN:
JAMES C. GARDNER

KEVIN M. GREEN
Greensboro

MICHAEL C. HERRING
West Jefferson

ADMINISTRATOR:
ROBERT A. HAMILTON

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Granite Falls Alcoholic Beverage Control Board
Mr. David Annas, Chairman
P.O. Box 260
Granite Falls, NC 28630

Dear Chairman Annas,

We are pleased to submit this performance audit report on the Granite Falls ABC Board. The objective of this audit was to examine existing policies, practices, and controls and to provide recommendations on methods to improve operating efficiency at the ABC Board in accordance with new legislative mandates.

The report consists of an executive summary, background information, operational findings and recommendations along with your response to our recommendations. This report will be posted on the Commission's public web site.

We would like to thank you, the ABC Board and your staff for the assistance and cooperation provided to us during the audit. Additionally, we appreciate the efforts your Board has made to comply with the new performance standards. Your continued efforts to increase profitability and reduce expenses is commendable and should remain your most important goal. Thank you also for acting on the recommendations that were provided.

If we can be of assistance in the future, please advise.

Respectfully,

Robert A. Hamilton
Administrator

CC: North Carolina Association of ABC Boards

GRANITE FALLS
ALCOHOLIC BEVERAGE CONTROL BOARD
P. O. BOX 260
GRANITE FALLS, NORTH CAROLINA

August 18, 2016

Moniqua S. McClean
ABC Commission Board Auditor
4307 Mail Service Center
Raleigh, NC 27699-4307

David Annas	Chairman
Steve Kirby	Member
Warren Walden, Jr	Member
Jim Ledford	General Manager

Ms McClean,

Thank you for attending the July meeting of the Granite Falls ABC Board. We appreciate you taking the time to present the findings of your recent audit of our board. Since your visit we have implemented the following recommendations you provided for us.

- 1 We have adopted a mixed-beverage policy following our current practices, and have included that in our Policies and Procedures Manual.
- 2 We have adopted the NC State travel policy and have included that in our Policies and Procedures Manual.
- 3 We understand that we are to submit the breakage claims forms quarterly, stating on the forms the reasons as to why products are unsaleable.
- 4 We understand the Order Acknowledgement from LB&B constitutes a pre-invoice for products ordered and should therefore bear the approved certificate as required by GS 18B-702, as well as any invoices we receive from office and store supply vendors.
- 5 We understand as specified in G.S. 143-318 the rules and procedures for entering into closed session, and understand what constitutes the need for a closed session.
- 6 We understand that a closed session must be held to approve the minutes from a previous closed session.

In addition to your recommendations, we appreciate your input on behalf of the NC ABC Commission on the possibility and viability of an additional ABC board in Caldwell County, as well as how the proposed changes to US 321 could affect our board.

Again, we appreciate your guidance as we continue to work to improve Granite Falls ABC.

Sincerely,



David G Annas,
Chairman

APPENDIX A

- 1) *G.S. 18B-700 (g2) states, "...the local board adopts a travel policy that conforms to the travel policy of the appointing authority and such policy is approved by the appointing authority. The local board shall annually provide the4 appointing authority's written confirmation of such approval to the Commission and a copy of the travel policy authorized by the appointing authority."*
- 2) *NCAC 15A .1701 (b) states, "...A Destruction of Unsalable Merchandise Report shall be completed and signed by the witnessing parties. A written copy of the report shall be sent to the distiller and a written or electronic copy shall be sent quarterly to the Commission. The original shall be retained by the local board for a period of three years."*
- 3) *18B-702 (m) states "...the contract, agreement, or purchase order shall include on its face a certificate stating that the instrument has been pre-audited to assure compliance. The certificate, which shall be signed by the finance officer or any deputy finance officer approved, shall take substantially the following form:*

"This instrument has been pre-audited in the manner required by GS 18B-702."

(Signature of finance officer)